The Standard Offer Auction
Proposed Design

A. Administrative Process and Time Line

The Standard Offer Auction (the "Auction") will be administered and conducted via a common process and time line for all distribution companies. Bids will be submitted and evaluated through a Request for Proposal process. The principal steps and approximate timing of the Auction are outlined below.

March 1997 - Preliminary RFP Issued

The Preliminary RFP will detail all of the major elements, requirements and commercial terms and conditions of the final RFP that will be issued in August. Its purpose is to give potential bidders the necessary information to determine whether they intend to participate in the Auction. Specific pre-bid qualifications will be established including an audited statement of financial qualifications and other relevant information to ascertain a bidder's ability to perform. Neither the terms of the Preliminary RFP nor Final RFP shall require a bidder to hold title to the power needed to fulfill its obligations under its bid.

Pre-bid applications including required bidder qualification information are due by (a date to be specified in the Preliminary RFP) along with a modest non-refundable administration fee of $1,000.

July 1997 - List of Qualified Bidders Submitted to the DPU (for informational purposes)

August 1997 - Final RFP Issued (including a standard contract)

September 1997 - Bids Due

Bids would be accepted only from pre-qualified bidders and must include a deposit of $1,000 for each GWH the bidder proposes to supply over the duration of the Standard Offer. *For example, if a bidder proposed to supply 500 GWH per year for seven years, its deposit would total $3,500,000 ($1,000 x 500 GWH x 7 yrs).* This deposit is refunded in the event that a bidder is not selected. If successful, at the bidder's election, the deposit can either be refunded or applied toward the performance bond (described below).

October 1997 - Winning Bidders Selected

Contracts are expected to be executed between bidders and the distribution companies and become effective upon the bidders (now considered "suppliers" in this description) establishing a "performance bond" in the amount of $10,000 per GWH to be supplied under the Standard Offer. The performance bond would be returned to the supplier upon completion of its contractual obligations.

B. Important Auction Rules and Conditions

1. Minimum Bid Elements. In order to conduct a fair and effective Auction, all bids from pre-qualified bidders must include a "Percentage Discount Off the Standard

Offer" (the "Discount") and the "Amount of Energy to be Delivered" as described and applied below. These two elements will be the only criteria by which winning bidders are chosen. All bids from pre-qualified bidders will otherwise be considered to be equivalent.

2. The Auction Procedures. Mass. Electric shall implement the following auction procedures for determining the suppliers of Standard Offer Service:

   a. Seven Year Flat Discount Auction. This is a single, constant discount to be in effect for all seven years of the Standard Offer, expressed as a percentage greater than 0%, with larger discounts being viewed more favorably. Winning bidders are to be paid based upon the next highest Discount bid whether determined by the Seven Year Flat Discount Auction or by the lowest discount bid in the next best Alternative Individual Auction Increment, discussed below (a second price or Vickery auction).[1] The bids in this auction shall be sealed until the Alternative Individual Year Auction set forth below is completed.

   b. Alternative Individual Year Auction ("Alternative Auction"). This Alternative Auction shall take place immediately following the Seven Year Flat Discount Auction. Bidders will be required to bid separately for each year, and unlike the Seven Year Flat Discount Auction, a bid for any single year may not be conditioned on success in any other year. Thus, the Alternative Auction shall allow bidders to specify different discounts in different years. Bid amounts must be in annual increments of 150 gigawatthours of energy, which will be delivered as specified below. Prices in the Alternative Auction shall be open to other bidders, but the identity of the bidders associated with the prices will not be identified. The Alternative Auction will continue for multiple rounds until the next bid fails to improve the discount offered in the prior bid by one percent.

      Following completion of the bidding, Mass. Electric shall rank the bids for each individual year, with larger discounts viewed more favorably, and shall identify the best bids in each year that would fill a 150 gigawatthour increment covering all seven years of the purchase period. Mass. Electric will then repeat the process for as many increments as possible until the bids no longer cover all seven years in the period.

   c. Selection of Suppliers from Both Auctions. The increments from the Alternative Individual Year Auction will then be compared to the Seven Year Flat Discount Auction by assigning the Alternative Individual Auction Increment with the lowest discount bid in any single year of the increment. In the event of ties, the earliest, highest discount shall have priority. Suppliers in the Alternative Individual Year Auction shall be

[1] For example, if the best four winning bids (out of 10 submitted) met the distribution company's expected demand at Discounts of 12.5%, 10%, 9% and 7% respectively, the first winning bidder would receive a discount of 10%, the second winning bidder 9%, the third 7%, and the fourth would receive the Discount bid by the first losing bidder (who bid 6.5%).

held to their bids, unlike the second price or Vickery auction used in the Seven Year Flat Discount Auction.

NEP shall be allowed, but not required, to bid in the Alternative Individual Year Auction.

3. Payment by Distribution Company. The distribution company is responsible for paying suppliers at the following electric delivery rates, reduced by the applicable Discount, for all energy the supplier delivers (less losses) in the respective year. These rates are flat annual values and do not include a demand or capacity component and will not be adjusted for seasonal or time of day factors.

Distribution Company Rates

1998	3.2 ¢/KWH
1999	3.5
2000	3.8
2001	3.8
2002	4.2
2003	4.7
2004	5.1

For example, if a supplier bid a Discount of 5.5% and delivered 500 GWH to ultimate customers in 1999, that supplier would receive $16,537,500 from the distribution company (3.5¢/kwh x (1-.055) x 500 GWH x 1,000,000 kwh/GWH x .01 $/¢).

A fuel index adjustment mechanism, applied to Customer Rates, may provide additional revenues to suppliers in the event that large, unexpected increases in market oil and gas prices occur. This adjustment is further described below.

4. Amount of Energy to be Delivered ("Delivered Energy"). Bids shall specify a single, constant quantity of energy, expressed in GWH per year, that the bidder commits to supply to the distribution company in each year of the Standard Offer. This amount represents the maximum amount of energy a supplier is responsible to provide to the distribution company annually, as measured at the ultimate customer's meter. For purposes of determining the amount of the bid deposit and performance bond, the total energy to be supplied under the standard offer will be the Delivered Energy value times the number of years the energy will be provided. Suppliers are responsible for all electric delivery losses and any necessary transmission arrangements and costs.

5. Right to Bid a Joint Supply - Prequalified bidders will have the right, subject to any provision of law, to submit joint bids pursuant to which one supplier may provide less than the full amount of Delivered Energy as long as the other suppliers on the joint bid provide the remainder of the Delivered Energy obligation, and the total performance bond is posted and in effect for the seven years .

6. Higher Discounts Ensure a Right to a Longer Term of Supply - Customers have the right to leave the Standard Offer at any time to receive service in the

competitive energy market (subject to minimal notice provisions). As such, the amount of energy required from suppliers under the Standard Offer may likely decline over time. Supplier(s) who are in the increment with the highest Assigned Discount will have the right to provide energy for the longest period of time. With declining customer load due to departures from Standard Offer service, lower Discount suppliers whose Delivered Energy amount exceeds the distribution company's needs will have their Delivered Energy amounts reduced and Standard Offer supply contracts ultimately terminated.

7. Load Responsibility and Allocation - Suppliers are responsible for a percentage of the distribution company's Standard Offer real-time customer energy demand (minute by minute, hour by hour, day by day). This includes changes in customer demand for any reason, including but not limited to, seasonal factors, normal daily load patterns, increased usage, demand side management activities, extremes in weather, etc. The only exception is for the loss of Standard Offer customers as described in the section immediately above. Responsibility is allocated to a supplier based on its Delivered Energy bid divided by the estimated total annual Standard Offer energy demand of the distribution company.

8. Responsibility for Electric Delivery Losses - Suppliers will provide all losses, in kilowatts and kilowatthours, from the supplier's generation sources to the customer meter.

C. Standard Offer Customer Rates and Customer Rights

Customers who elect Standard Offer service by choice or inaction will pay predetermined, flat rates ("Customer Rates") for energy consumed as follows:

Customer Rates

1998	2.8 ¢/KWH
1999	3.1
2000	3.4
2001	3.8
2002	4.2
2003	4.7
2004	5.1

At any time during the Standard Offer customers have the right to leave Standard Offer service and receive energy from another supplier in the marketplace. In addition, residential and G-1 customers have a limited right to return to standard offer service in the first year after the retail access date.

Customer Rates are subject to upward adjustment in the event of substantial increases in the market prices of No. 6 residual fuel oil (1% sulphur) and natural gas after 1999, as described in the following section. If invoked, prices would change as a function of the amount by which market fuel prices exceed the predetermined price "trigger" levels. These triggers have been set to allow a large dead-band in which no increases to Customer Rates would apply.

D. Standard Offer Fuel Index

The Customer Rate in effect for a given billing month is multiplied by a "Fuel Adjustment" that is set equal to 1.0 and thus has no impact on Customer Rates unless the "Market Gas Price" plus "Market Oil Price" for the billing month exceeds the "Fuel Trigger Point" then in effect, where:

Market Gas Price is the average of the values of "Gas Index" for the most recent six months through and including the billing month, where:

Gas Index is the average of the daily settlement prices for the last three days that the NYMEX Contract (as defined below) for the month of delivery trades as reported in the "Wall Street Journal", expressed in dollars per MMBtu. NYMEX Contract shall mean the New York Mercantile Exchange Natural Gas Futures Contract as approved by the Commodity Futures Trading Commission for the purchase and sale of natural gas at Henry Hub;

Market Oil Price is the average of the values of "Oil Index" for the most recent six months through and including the billing month, where:

Oil Index is the average for the month of the daily low quotations for cargo delivery of 1.0% sulphur No. 6 residual fuel oil into New York harbor, as reported in "Platt's Oilgram U.S. Marketscan" in dollars per barrel and converted to dollars per MMBtu by dividing by 6.3; and

If the indices referred to above should become obsolete or no longer suitable, the distribution company shall file alternate indices with the Department.

Fuel Trigger Point is the following amounts, expressed in dollars per MMBtu, applicable for all months in the specified calendar year:

2000	$5.35/MMBtu
2001	$5.35
2002	$6.09
2003	$7.01
2004	$7.74

In the event that the Fuel Trigger Point is exceeded, the Fuel Adjustment value for the billing month is determined based according to the following formula:

$$\text{Fuel Adjustment} = \frac{(\text{Market Gas Price} + \$.60/\text{MMBtu}) + (\text{Market Oil Price} + \$.04/\text{MMBtu})}{\text{Fuel Trigger Point} + \$.60 + \$.04/\text{MMBtu}}$$

Where:

Market Gas Price, Market Oil Price and Fuel Trigger Point are as defined above. The values of $.60 and $.04/MMBtu represent for gas and oil respectively, estimated basis differentials or market costs of transportation from the point where the index is calculated to a proxy power plant in the New England market.

For example, if at a point in the year 2002 the Market Gas Price and Market Oil Price total $6.50 ($3.50/MMBtu plus $3.00/MMBtu respectively), the Fuel Trigger Point of 6.09 would be exceeded. In this case the Fuel Adjustment value would be:

$$\frac{(\$3.50 + \$.60/MMBtu) + (\$3.00 + \$.04/MMBtu)}{\$6.09 + \$.60 + \$.04/MMBtu} = 1.0609$$

The Customer Rate paid to the distribution company is increased by this Fuel Adjustment factor for the billing month, becoming 4.4548¢/KWH (4.2 x 1.0609).

In subsequent months the same comparisons are made and, if applicable, a Fuel Adjustment determined.

Incremental revenues received by the distribution company as the result of a Fuel Adjustment would be fully allocated to Standard Offer suppliers in proportion to the Standard Offer energy provided by a supplier to the distribution company in the applicable billing month.